



Development of insurance and reinsurance in Argentina

Alberto Ávila
MAPFRE RE Argentina

«As is the case in other countries, there has been a move towards the development of a synergistic BancAssurance model and, independently of this, access to premium quotes and policy issuing through the Internet for personal life, motor and private home insurance.»

The year 2000 will mark the tenth anniversary of the liberalisation of the Argentinean reinsurance market

«A lot of water has passed under the bridge since then» and at the dawn of a new millennium it would seem appropriate to take a brief overview of the progress of this country's insurance sector.

At the end of the 80s the Argentinean economy had to battle a period of economic instability which resulted in «hyperinflation».

At the beginning of the 90s a number of specific regulations for the insurance sector were introduced within the context of a general economic policy. The main aims were as follows:

- Deregulation of the insurance sector, freeing policy conditions both in terms of cover conditions and in terms of costs, including brokerage margins.

- The freeing of the «monopoly» reinsurance, assigned to the Instituto Nacional de Reaseguros.

- The setting of greater equity requirements, being based on a «solvency margin» criterion.

- A greater control capacity over insurers, with a greater openness with regard to their financial position.

- The withdrawal of the state from direct insurance business.

- Equal treatment of domestic and foreign investors.

The development which the market has experienced in the last few years has allowed premium income to increase from USD 3,010 million (1988/89) to USD 6,060 million (1998/99). In relative terms the increase was greatest in personal lines which now contribute more than 30% of market premiums, whilst this figure did not reach 10% in 1989.

This growth trend is continuing, as evidenced by the fact that in the period April 1999 to march 2000 (last figures available) premium income totalled USD 6,735 million. This figure greatly exceeds that for all the previous years – despite the fact that the economy is undergoing a period of recession from which it is about to emerge.

The drastic control on the recurrent inflation, which for decades had made it impracti-

cal to adjust life insurance to an actuarial basis, and the authorisation to issue covers in foreign currencies were fundamental to the development of personal lines. This growth was also influenced by the development of life annuities, disablement insurance and the disappearance of certain social security contributions, brought about by the changes to the welfare and occupational accidents systems.

These new possibilities caused the arrival of foreign companies with top level shareholders, which began to do business intensively in the market.

A quick look at the overall figures for the period shows a favourable development of many solvency indicators (higher levels of net equity, reserves and investments) and management; although unfortunately the technical result was persistently negative without being counterbalanced by investment income. Part of this behaviour has been due to the delay in settling the credits which a large part of the market has against the ex-official reinsurer, despite the fact that almost a decade has passed since it stopped trading.

Other aspects worthy of mention are:

- The steady and continuous concentration of business within the group of leading companies.

- The opening of the market for the entrance of new companies. These are now required to have greater minimum capital requirements than was the case in the past.

- The substantial modification of the reserve requirements for motor insurance.

- The special regulation of companies insuring «public passenger transport», setting rigorous operating conditions.

- A significant purging of the market, causing the closure of many companies, etc.

One matter still pending is the search for greater reasonableness and homogeneity of criteria in setting the value of human life, this problem principally affects third party liability in motor insurance. Progress has been made in this respect with the elimination of «without limits» cover which for many years was the norm, this has made the risk more easily predictable.

A reduction in the levels of operating costs (around 20%) and acquisition costs (around 30%) is still pending resolution. This is affecting the development of the business which is at present characterised by a high level of competition which has forced cover terms down to a highly negative situation.

As is the case in other countries, there has been a move towards the development of a synergistic BancAssurance model and, independently of this, access to premium quotes and policy issuing through the Internet for personal life, motor and private home insurance.

The heavy tax burden on premiums, which has no international comparison, is an especially worrying matter in these times. Various legislative changes are being considered, and these will depend on political will to carry them through, although it is true that after the recent change of government this political will is strong.

Another matter which is being discussed, and which has been brought to the forefront by the previously mentioned purging of the market which has had negative effects on the insured and on the victims, is the setting up of some type of guarantee fund which would come into

play in the case of insurer default, although no progress has been made on this matter.

In summary, it is our opinion that the Argentinean insurance market is going through a very traumatic transition phase towards a definitive consolidation.

«In summary, the Argentinean insurance market is going through a very traumatic transition phase towards a definitive consolidation. Reinsurers have a very important role to play in achieving this desired objective.»

Reinsurers have a very important role to play in achieving this desired objective.

There was a first stage of «discovery» in the market in 1990 in which some few reinsurers accepted an active role in supporting the Argentinean market which had been accustomed to practices of closed negotiations with poor standards in information systems and processes, an absence of reliable statistics and exceptionally speculative criteria (intention to continue transferring losses without seeing the reinsurer as an ally in time).

In the intermediary phase certain reinsurers moved into the market, some with the intention of staying and others with the intention of testing the market.

Today, to the benefit of all, there is an abundant reinsurance offering with the presence of the large international companies which have the advantage of working teams to manage transactions, introduce new lines and promote the development of the sector.

In these 10 years MAPFRE RE has been a participant in this interesting development, and has achieved a privileged position of which it is a proud.

The Deregulation of the Insurance and Reinsurance Market in Argentina

The liberalisation of reinsurance preceded the deregulation of insurance and the withdrawal of the state from direct insurance.

Since the 60s the country's insurance companies were obliged to cede their excesses to the Instituto Nacional de Reaseguros, which in turn formed retrocession funds which were then offered to the market again, and which also contracted various types of protections in external markets. The ceding of excesses was partially liberalised towards the end of 1989, and it was decided to shut down the institute in 1992.

The system of obligatory minimum premiums was abandoned in 1990 and the criterion of sufficient premiums was adopted. The tacit approval of new covers was accepted once a certain period of time had passed after they have been submitted for approval to the regulatory body, even though this body has not made any judgement. Since that time a series of measures was taken aiming towards a rationalisation of the market. Examples of these measures include the determination of insurers' capital as a function of premium income and loss experience, special reserves for motor insurance, the increase in minimum capital requirements, the use of the services of reinsurers which had been given a rating, etc. The setting up of companies specialised in life insurance was also promoted. The situation of the insurance market was part and parcel of the new economic orientation which had been brought about since 1989, and particularly since 1992. The privatisation of the national insurer—which headed the ranking by premiums—was agreed on in 1994.

The changes in the welfare system and cover against acci-

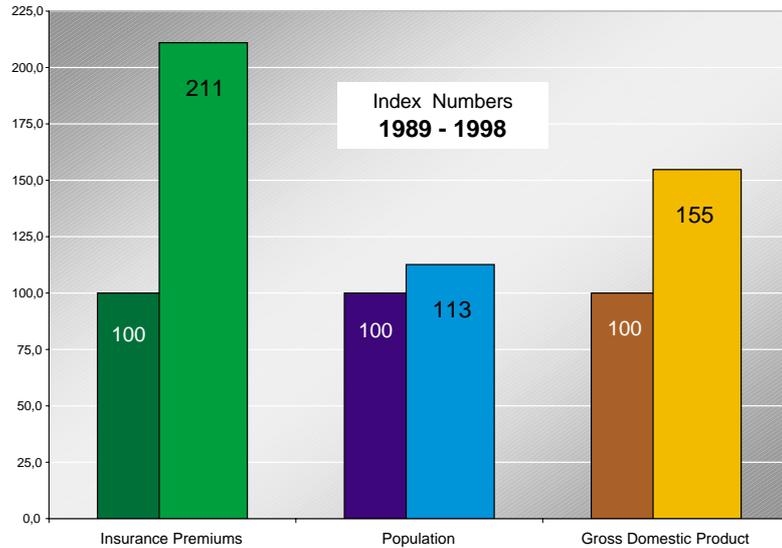
dents in the workplace caused the appearance of insurers specialised in death and disablement as adjuncts to the system and insurers of occupational risks. These reforms gave new impetus to life annuity companies, which in Argentina were referred to as retirement insurance companies. The complete opening of the register of insurance companies occurred in 1997.

The fall of various companies was brought about as a consequence of the new insurance market conditions. Some idea of the numbers involved is given by the number of licence revocations issued by the supervisory body for insurance which, between 1989 and 1998, totalled 131 companies.

The concentration process also accelerated at the same time, giving the following breakdown of premium income share:

Top 20 companies	48.60%
Top 40 companies	67.90%
Top 60 companies	79.00%
Top 80 companies	86.20%
Top 100 companies	91.10%

In this decade, as is shown by the accompanying graph, the rise in insurance premium income exceeded the increase in the population and the increase in gross domestic product, despite the fact that the growth of the gross domestic product up until 1998 reached rates that had no precedent in the country. In this respect, the growth of property and casualty insurance was comparable to the growth in gross domestic product, but the lines of business which above all caused the improvement in the premiums/GDP ratio were personal lines, principally individual life, life annuities and policies related to welfare plans. ■



Insurance Production per capita

In dollars

1990	1998	Variation
87.2	161.2	84.9%

Production by Gross Domestic Product

Percentage

1990	1998	Variation
1.30%	1.74%	33.8%

Source: National Insuran Authority.

Population

1989	1998	Variation
32,070,003	36,109,300	12.6%

Source: Projections by National Statistics and Census Institute

Gross Domestic Product

In millions of dollars

1989	1998	Variation
192,731	298,155	54.7%

Source: Ministry of the Economy and Public Works and Services.

Evolution of Number of Insurers

	1989	1998	Variation	Percent
TOTAL	249	266	17	6.8%
Retirement Insurance	23	31	8	34.8%
Life Insurance	6	71	65	1,083.3%
Workplace Risks		15	15	
Property or Mixed	220	149	-71	-32.3%

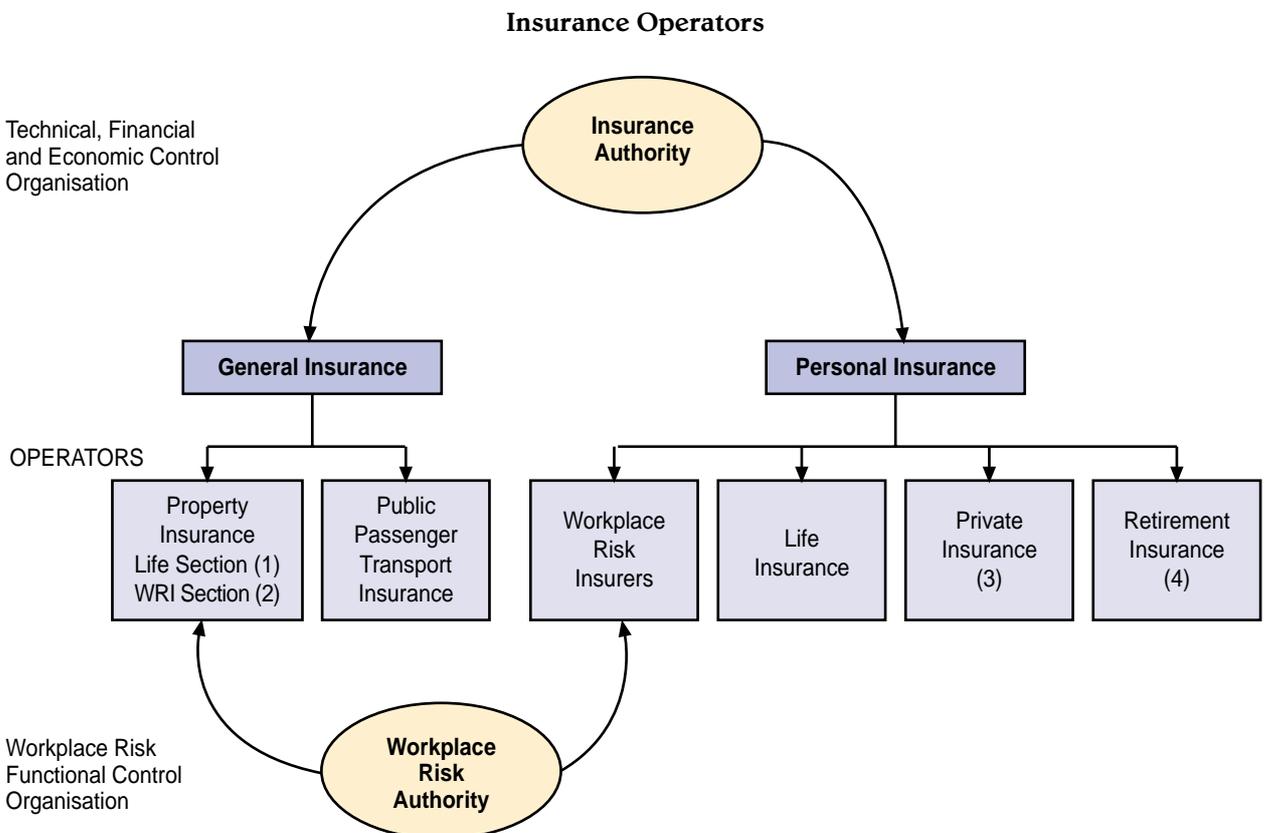
Source: National Insurance Authority.

Evolution of Premiums and Surcharges

Field of Activity	1989		1998		Variation
	\$000,000	Composition	\$000,000	Composition	
TOTAL	2,759	100.0%	5,822	100.0%	111.0%
Property Damage Insurance	2,509	90.9%	3,793	65.1%	51.2%
Automotive	1,327	48.1%	2,181	37.5%	64.4%
Workplace Risks/ Work Accidents	288	10.4%	574	9.9%	99.3%
Fire and Combined Homeowners	368	13.3%	414	7.1%	12.5%
Transport	174	6.3%	160	2.7%	-8.0%
Others	352	12.8%	464	8.0%	31.8%
Personal Insurance	250	9.1%	2,029	34.9%	711.6%
Personal Accident	12	0.4%	72	1.2%	500.0%
Life Insurance	232	8.4%	1,329	22.8%	472.8%
Others (*)	6	0.2%	628	10.8%	10,366.7%

(*) The increase is due to insurance related to the expected reform (disability and death of contributors).

Source: National Insurance Authority.



(1) Firms that already had a Life Section when the change in the regulations came into force.

(2) Firms offering Work Accident cover when the law was changed that decided to set up a work-risk insurance section in accordance with the new legislation.

(3) Insurance of disability and death of contributors to Retirement and Pension Fund Authorities provided in the mixed private system in force in Argentina.

(4) Private life-income firms directly contracted by private individuals or through Work Risk Insurers (WRI) and Retirement and Pension Fund Organisations.